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The Transnational Corporation and New Corporate Citizenship Theory

A Critical Analysis*

Marc T. Jones

Ashridge Business School, UK; Maastricht School of Management, The Netherlands

Matthew Haigh

Toulouse Business School, Groupe ESC Toulouse, France

A recent conceptualisation of corporate citizenship by Matten and Crane (2005) shifts focus onto the corporation's role in providing individuals with the rights they are entitled to as citizens. This expanded corporate role is depicted as filling an institutional vacuum resulting from the withdrawal of the state. Marking an innovation to the corporate citizenship literature, we devise a three-part analytical framework from political institutionalism to question the concept's ideological and empirical groundings. Incorporating a constrained game theory perspective, we use an example of the provision of Western corporate services by low-labour-cost nation-states to argue that the concept as strategy would in some circumstances exacerbate the implications of globalisation on individual citizenship rights. The analytical framework has application for research directed toward proposals to extend the reach of corporations in traditional public services and, more generally, for studies of corporate responsibilities. Future research on corporate citizenship would be strengthened in recognising, as we do, institutional incentives, constraints, decision-making modes and resources as used by the transnational corporation.

- Corporate responsibility
- Globalisation
- Corporate citizenship
- Political institutionalism
- Game theory

Dr Marc T. Jones joined the Ashridge Business School in 2006. He has a PhD in strategy from the University of California, Irvine. Marc has published numerous research- and practitioner-oriented articles across a wide variety of areas including strategy, international business, corporate social responsibility and business education. His long-term research interests focus on various aspects of globalisation. Marc is also the co-author of two books on general management and linking conceptual models of strategy to practical performance measurement tools. Before embarking on an academic career, Marc was a management consultant with KPMG and a financial analyst with EDS.



✉ Ashridge, Berkhamsted,
Hertfordshire HP4 1NS, UK
marc.jones@ashridge.org.uk
www.ashridge.org.uk

Matthew Haigh has a PhD in business from Macquarie University. His work on investor decision-making, financial services regulation and business ethics has been published in several interdisciplinary outlets. His current research interests include organisational relations between globalised shareholder activism and securities markets. He lectures at Toulouse Business School, France.



✉ Toulouse Business School, Groupe
ESC Toulouse, 20 bd Lascrosses,
BP 7010, 31068 Toulouse Cedex 7,
France
haighmatthew@yahoo.com.au
www.esc-toulouse.fr

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THE LITERATURE ON CORPORATE CITIZENSHIP VIEWS THE CORPORATION AS A societal institution that has obtained the legal status of a person/citizen and debates the appropriate mix of rights and responsibilities that should (or should not) follow this status. Corporate citizenship can be seen as an extension of the corporatism of the 1970s and 1980s, which presupposes that state officials are able and willing to share political authority with functionally organised interest groups in society (Grant 1986). As the state devolves part of its legitimate coercion and capacity to make and enforce binding agreements to organised groups that it does not control, business corporations redefine their self-interested strategies in a 'public-regarding' way (Visser and Hemerijck 1997: 68). Lustig (1992) chronicles the societal debates that surrounded the elevation of the corporate form to the status of legal personhood in the late 19th century in the United States, a struggle the outcome of which was in no sense inevitable. Reich (1998) revisits this debate, concluding that the corporation's citizenship right to participate as a political actor should be withdrawn in order to revitalise American democracy.

An apparently novel conceptualisation of corporate citizenship has recently been presented by Matten and Crane (2005). These authors shift focus onto the corporation's role in providing individuals with the rights they are entitled to as citizens (e.g. access to basic services). This expansion of corporatist governance is depicted as filling an institutional vacuum resulting from the withdrawal (or complete absence) of the state in the areas of social security and labour market management. Matten and Crane argue that globalisation has significantly reshaped the demands placed on corporations by wider stakeholder communities. The authors contend that this has led to a shift of the responsibility for protecting individual citizenship rights from governments to business corporations. They claim that **new corporate citizenship** (NCC):

[. . .] is not simply about corporate social policies and programs that might (or might not) be adopted in the same vein as CSR. Rather, we argue that the effective functioning of [individual] liberal citizenship has been sufficiently affected by the corporate uptake of government functions to render corporate involvement in 'citizenship' a largely unavoidable occurrence.

Matten and Crane (2005) identify three ways in which governmental and corporate roles in the administration of individual citizenship rights are changing. (1) In response to domestic pressures under which government withdraws from the administration of citizenship rights, through mechanisms such as privatisation or welfare reform; (2) with respect to domestic pressures under which governments of economically developed nation-states have never administered citizenship rights, as with developing or underdeveloped countries where rights to healthcare, education and the like have yet to be secured; and (3) with respect to external challenges which have carried implications that the administration of citizenship rights are beyond the reach of the nation-state, such as dealing with the impacts of the globalisation of markets and global environmental issues.¹

Our article is set out in five parts. The first section describes the theoretical premises guiding our work and presents several descriptive and ideological criticisms of the NCC concept. The next three sections elaborate on the descriptive criticisms by examining various factors that will determine the extent to which corporate behaviours consistent with the concept can be expected to empirically manifest. Section two outlines the functions of the state in the current environment of expanding globalised economic mar-

¹ Globalisation, as justification for increased roles of the private sector, has been a perennial topic of debate in governmental and supra-national circles. Some EU member states have argued that international economic pressures and European economic policy competition provide sufficient rationale for revisions to corporatist strategies.

kets. The third section outlines the diffusion of transnational corporations as a ubiquitous feature of contemporary business and illustrates some of the difficulties associated with defining the social context of transnational corporations within extant political institutional arrangements. Section four argues that an operationalised NCC would serve to exacerbate rather than redress the implications of globalisation on individual citizenship rights. The argument is based on an example of an issue that has attracted attention in the CSR literature: Western corporations' outsourcing of ancillary operational functions to low-labour-cost nation-states. A final section remarks on the ideological implications of Matten and Crane's concept of corporate citizenship. Possibilities that expanded roles of private-interest groups might preserve or strengthen functional roles of the state are suggested as avenues for future research.

Assessing new corporate citizenship theory

Matten and Crane (2005) has received trenchant criticism from van Oosterhout (2005) in *The Academy of Management Review* and it is not our intention to repeat that criticism here. Our assessment, using different theoretical lenses to those of van Oosterhout, finds previously hidden deficiencies of NCC on policy grounds and disturbing implications on ideological grounds. In this light, we consider our article adds to van Oosterhout (2005) in addressing the comments made in Crane and Matten (2005). Van Oosterhout (2005) criticises the empirical salience of the NCC concept for its reliance on a few anecdotal examples. Crane and Matten (2005) reply that they chose not to include all the empirical references that they claim are available. Van Oosterhout (2005) also questions the normative relevance of NCC on the basis that Matten and Crane do not speculate as to why corporations might undertake this new role as provider of citizenship rights for individuals, nor discuss contingent circumstances as to when or where such initiatives might occur. Matten and Crane do not explicate any normative claims as to the desirability of the NCC; contradictorily, Matten and Crane evidently view such an expanded corporate role in society as potentially extremely problematic. For example, the types of negotiations that would be required between the representatives of capital and labour could be expected to change from current arrangements in developed economies. The presentation of the NCC concept excludes such discussion.

Before we discuss the main problems with the NCC concept, it is necessary to explain methodological and theoretical premises guiding our own work. Our arguments are informed by political institutional analysis and a game theoretic perspective. As regards the former, political institutionalists interpret interrelations between state and private-sector institutions from a standpoint of the rules-of-the-game of decision-making. Acceptance of the status quo follows an objective to draw attention to institutions as important determinants of policy outcomes. Although political institutionalism is found most commonly in the literature of public policy, its perspective is apposite to a discussion of proposals to extend the research of corporate citizenship. The particular conceptualisation that Matten and Crane offer speaks directly to the appropriate choice of institution for policy design and execution.

Garriga and Melé (2004) show that in the past decade the CSR-related management-focused research has most often used stakeholder management to theoretically address relations between conceptualisations of the common good and profit motives inherent to the business corporation. This vast body of work, extending back to the 1970s, commonly invokes permutations of stakeholder analysis (see Porter 1985; Wood 1991; Williamson 1993; Turnbull 1996). Being an organisation-centred concept, stakeholder analysis assesses the importance of ecological systems from the perspective of threats

to the firm rather than from a perspective of the firm's threat to ecological systems. Its imprecise relegation of civil society as a distant stakeholder implicitly promotes the infiltration of business into the political state. The main part of work on the nexus between corporate citizenship and globalisation is of a non-critical nature and is in need of theoretical development. The various invocations of moral philosophy thought to support implementation of global business citizenship (Logsdon 2004; Logsdon and Wood 2005) and corporate citizenship (Logsdon *et al.* 2006) have not been thoroughly integrated with contextual analyses of the global corporate citizen.² It is of little surprise, then, that these literatures have not drawn from the public policy literature and, as such, their readers are likely to be unaware of the utility of political institutional analysis.

We diverge from van Oosterhout (2005) in two respects, one epistemological and the other methodical. In sharing the aim of van Oosterhout to comprehend the NCC conceptualisation, we see our role as uncovering its ideological implications in a way that makes room for *critical* theory-building. To do so, we contest NCC on both descriptive (positive) and policy (normative) grounds. Implicit in our perspective is the appropriate choice of analytical method. Our criticisms of the explanatory power of the NCC concept differ from those used by van Oosterhout (2005: discussed below) in being informed from a game theory analytical perspective. The viability of game theory in the context of public welfare and social choice theories, the presumed theoretical referents of NCC, has been seen by Hausman and McPherson (1993) as constrainedly relevant. Normative applications of game theory can be used to determine the 'best' or 'right' solution to problems of strategic interaction, where the problem involves at least one continually strategic player. We take the corporation to be such a strategic, self-interested player. Positive applications of game theory to determine how rational organisations will solve rational problems may also be relevant in matters of welfare policy. We are prepared to accept corporate citizenship, and more generally CSR, as viable only in terms of known strategies and probable consequences. Justification comes from the uncontroversial observation that large corporations, which are the focus of this article, in the absence of knowledge of competitors' strategic plays, will find such proposals unacceptable merely on calculable grounds. The problematic nature of social cooperation is not solved automatically by NCC, be it contractual or voluntary, as most corporate forms of organisation exercise a limited moral agency (French 1987) and moral responsibility cannot be divorced from the delivery of citizenship rights.

In short, a grounded analysis such as is provided by political institutionalism predicts that NCC, if operationalised partially or extensively in business strategy, would promote disparate and compromised policy goals (policy vacuum) and, in terms of outcomes, reify attention paid to private capital. Game theory can be considered as bearing on the question of the compatibility between the dictates of organisational rationality and the demands of social justice as encapsulated in the delivery of basic services. Much of the arguments that follow should be read in light of these assumptions.

The unarticulated assumption in Matten and Crane's presentation is that public policy formation, if given over to the business sector, will produce equitable policy outcomes more efficiently than if such responsibilities were entrusted to elected national governments. Reciprocal advantages are expected to flow to the state and to the interest groups whose members are the target of the policy, most of which focus on effective policy implementation. An analysis of this assumption using a political institutional frame-

2 Logsdon (2004) clarifies an early confusion between the terms 'corporate citizenship' and 'global business citizenship'. Corporate citizenship was conflated commonly with corporate social responsibility/responsiveness. Global business citizenship was directed mainly at transnational corporations, involving the use of moral norms that promoted ideas such as respect for local cultural variations. Conceptual differences between CC and CSR focus on globalisation. Conceptual differences between global business citizenship and CC and CSR remain confused.

work requires consideration of three aspects of policy-making. These have been articulated by Visser and Hemerijck (1997: 53-54) as: (1) power and access distributed to the decision-making process; (2) the self-interested strategies of relevant policy actors (which in the current context are represented by the state and business corporations); and (3) the range of policy goals brought by policy actors to the policy-making agenda. The following analysis of NCC systematically uses this multi-dimensional approach of political institutionalism.

There are four main problems with the NCC concept: (1) its baseless theoretical presentation; (2) its selective use of political science literature; (3) its neglect of salient institutional developments; and (4) its silence on how the concept might be applied at the level of nation-states and transnational organisations.

With regards to the first problem, NCC is presented without reference to any theory of the business firm and its institutional function in contemporary capitalist society. The NCC concept displays an almost complete disconnection between CSR etc. and a grounded theory of the for-profit corporation functioning in a capitalist institutional setting (see Jones 1997). This is typical of research in CSR, business ethics and related areas. The problem this creates is one of relevance and validity in that the types of organisational attitudes and actions, on which the NCC concept relies, quickly break down in light of long-extant legal and fiduciary obligations in which the corporate form is imbricated.

Policy formulation under NCC is dictated by the demands of private finance capital (Useem 1996). Policy outcomes, accordingly, are made contingent on their contribution to returns on that capital. The intended recipients of policy outcomes thus become hostage to the interests of actors in financial markets: namely, the self-interested strategies of the corporate manager and those on whose behalf the corporate manager acts. This constraint can be expected to distort, rather than deliver effectively, the policy goals and desired outcomes. Mooted comparative efficiencies of the private sector in the provision of basic services, claimed by Matten and Crane (2005) as the chief justification for NCC, is transfigured by the market into attempts at extracting commercial returns. In terms of achieving returns on capital or efficacious social policy outcomes, the available evidence suggests that successful attempts to bring the delivery of public policy under the domain of finance capital are not guaranteed (Humphrys 1999; Coleshill and Sheffield 2000; Newbery 2002; Heald 2003; Broadbent *et al.* 2003; Laughlin *et al.* 1994; Mouck 1995; Grahl 2006).

Two, Matten and Crane make selective use of recent developments in citizenship theory from the political science literature. Lasch (1996) and Held (1996) have produced important work that would inform a reflective consideration of the movement's (if corporate citizenship might be referred to as such) idealism and ideological implications. Lasch (1996) examines how previously universalistic (i.e. society-wide) notions of material progress have been displaced by much narrower (sometimes zero-sum) conceptions which are contingent on an individual or group's particular locational coordinates in the socio-economic hierarchy. For Lasch, the notion of 'progress' as a unifying social project (or narrative) has effectively ceased to exist. Instead the Reagan-Thatcher political and cultural counter-revolutions of the 1980s have fostered fragmented, divisive social formations dominated by interest-group politics, the cults of individualism and consumerism and obsessed with 'spectacles' (Debord 1969) which serve to distract citizens from the underlying power dynamics that determine distributive outcomes. By denying the relevance of class and race on the one hand and celebrating individual autonomy, responsibility and achievement on the other, the Reagan-Thatcher narrative reduces the concept of 'social progress' to nothing more than the sum total of myriad individuals' achievements (or not) in social mobility.

Relatedly, Held (1996) develops the theme of the transformation of citizenship rights from a universalistic political construct to an increasingly economic construct accessible on a user-pays basis (that is, the commodification of citizenship). This new citizenship is constituted by several primary features. First, people attain citizenship status through their ability to purchase goods and services; citizenship is therefore a matter of economic status rather than political capacity or spatial locatedness. Second is the presumption that access to a wide diversity of consumer goods, services and cultural products will be provided by the 'system'. Third, the right to cross national boundaries at will as tourists (or, more limitedly, as guest workers) is seen increasingly as a human right. This economic reorientation of the citizenship discourse is consistent with the individualist trajectory of contemporary social and material development as observed by Lasch. Matten and Crane's failure to draw on Held's work appears a somewhat curious oversight as the development of such a line of argument actually serves to strengthen the case for the NCC, at least in those situations where services can be provided under profitable circumstances.

Our theoretical framework is consistent with the insights of Lasch and Held. From a political intuitionist perspective, power and access distributed to the decision-making process are restricted to viable economic agents; anything less is discarded as an efficiency cost. In many contexts, and the Anglo-American context certainly, self-interested strategies of the state and the business sector can be expected to restrict delivery of policy to the sub-set of policy recipients that in many circumstances have the least need of its delivery.

Three, the NCC concept seems to have been developed without consideration of the more significant institutional developments of recent decades in the global political economy. If anything, corporations have been moving away from, rather than towards, an expanded notion of corporate citizenship (for themselves) in terms of maximising rights and minimising responsibilities to most stakeholders (see Reich 1998). The de-industrialisation of many North American and European manufacturing sectors in the 1970s and 1980s is one example of this trend (see Harrison and Bluestone 1988). The successful corporate flight from tax liability since the 1960s is another (Dicken 2003). Contemporary variants of outsourcing (including offshoring)—a phenomenon to be explored in some depth later in this article—is yet another. Ironically, such tendencies have been accompanied by self-laudatory and frequently illusory corporate responsibility initiatives (Roberts 2003). The responses of some North American companies to media exposure regarding their labour practices has been to announce such as placement of factory monitors and negotiated meetings with labour unions. These 'initiatives' have been accompanied by a concomitant recasting of (real) corporate rights over the political process (Llewellyn 2007). Such *quid pro quo* behaviour describes the lure of corporate citizenship for transnational organisations (see van Oosterhout 2005).

On that note, the recent shifts in social burdens that have occurred in most OECD economies cannot be ignored. These shifts have occurred in industry- and corporate-sponsored pension funds. One of many possible examples is the tendencies in the European Union and other advanced jurisdictions to shift provision of social protection and social services onto private retirement pensions. One immediate implication of such provision is that power is granted to private channels without justification. The maintenance of high levels of income replacement upon retirement does not depend on financial intermediation (private channels in preference to public pensions). Rather, the problem is of resources, which the legitimisation of capitalist enterprises through the transfer of social responsibilities will not solve. The transfer of retirement pensions to the private sector does solve a political problem by transferring responsibility for the problem 'from society onto individuals who will often be completely incapable of an effective response', as Grahl (2006: 264) wryly notes.

In considering the possible interplay of NCC with these developments, transfers of social protection to private interests creates mixed allegiances in the latter. In the absence of the state, the appropriate mix of fiduciary duties and obligations under the social contract is unclear at best and undeterminable in the more usual case. The basic premise of the concept of political citizenship is of a bundle of symmetrical responsibilities and rights (van Oosterhout 2005). What becomes predictable when citizenship is applied to the corporation is that provision of basic services, if granted, will be subordinated to gains for private interests, such as access to public policy formation, which is expected to lead to private economic benefits, such as the securing of markets and legitimisation of operations. Empirical examples of the effect on service delivery are provided in Armstrong (1991) and Broadbent *et al.* (1996).

Our final issue with NCC is that the authors fail to address issues of why, how, where, and when actions in accordance with the NCC concept might arise empirically, as noted in the criticisms of van Oosterhout (2005). Simply maintaining that such questions are beyond the scope of the NCC concept at this stage of its development (Crane and Matten 2005) is insufficient, even disingenuous, given that the entire concept collapses so quickly and utterly in light of such questioning. Strategic deployment of CSR has been seen as prefacing the assumption of civil duties by private-interest groups (Zadek 2004). Private-interest groups do not relinquish any of their power for self-seeking purposes and, yet, take on more responsibilities, which increases (presumably) their power over functions formerly delivered by the state. Turning to the state, control over the delivery of public resources is lost with little promised by way of a compensatory return. The wholesale replacement of the state that Matten and Crane advocate would be seen by governments as costly in terms of administrative reform, risky in terms of likely upheavals to public-sector employment and electoral considerations and as compromising extant regulatory programmes governing market reforms and corporate practices. From a political institutionalist framework, providing a costless bargain in favour of the private business sector would remove remaining valuable limits to untrammelled private opportunism provided by the oversight function of the state.

NCC does not address zero-sum implications that issue from current trends characterising relationships between the state and finance capital. A cursory examination of the patterns of current institutional shareholdings would consider incentives of institutional investors to transfer the costs of maintaining the quality of urban and non-urban environments, education and healthcare to taxpayers. The transfer is problematic given that pension funds represent taxpayers; the dispersed ownership of pension funds in competing firms, competing industrial sectors and competing economies; and the increasing tendency of most Western governments to transfer social policies to pension funds (Mintz and Schwartz 1990). Arbitrage cannot be considered an automatic panacea in the current institutional framework of finance capital. The nexus with CSR, which the concentration of institutional ownership in national stock markets makes moot, receives no attention in the conceptualisation offered by Matten and Crane (2005).

A shift in policy delivery can be expected to also create losers and winners between citizen groups:

As a matter of course, the selective incorporation of some interest groups into public policy implies the disenfranchisement or marginalisation of other societal interests (Visser and Hemerijck 1997: 71).

It is unlikely that NCC could be expected to articulate satisfactorily with the institutional context of basic welfare programmes such as social housing and healthcare, which are constituted by a mix of powerful governmental, corporate and non-corporate groups (Pierson 1995: 147). Policy-makers (the European Parliament, for one) are likely to resist the institutional reforms implied by NCC. Policy areas of social housing, healthcare, edu-

cation, social security and labour market management functionally differ and have given rise to a host of specialised professional service providers and advisers.

In terms of the deployment of NCC, three remaining problematics should be brought to light. (1) Businesses could be expected to view NCC in the short term as costly and risky in terms of unknown capital expenditure, proving difficult to justify to institutional investors and bearing unknown implications for 'core' segments of operations. (2) The styles of corporate decision-making, on the one hand, and styles of decision-making that represent pluralist interests may not be complementary. Corporate interests are patterned according to consensus-based problem-solving styles of decision-making. Social policies, in contrast, usually reflect an ad hoc bargaining style represented, or produced, by competing groups of self-interested actors (although the distinction blurs in European continental systems of governance). (3) Related to the previous problematic, Matten and Crane admit that it is empirically very unlikely that managers' actual cognitive schema has very much in common with the NCC concept, and admit substantial anecdotal evidence to the contrary, viz., that corporate management's normative orientation is for a much more delimited role, one that is confined to that domain where goods and services can be provided to customers under profitable circumstances.

The state and globalisation

The first 50 years of the 20th century developed the welfare state, proclaimed as a comprehensive system of benefits and entitlements combining pensions and retirement income with unemployment benefits, healthcare benefits and social services. Social security systems accumulated responsibilities as government-regulated financial systems grappled and sometimes failed to sustain them. The crisis of the welfare state in the second half of the 20th century concerned the expropriation of state functions by private interests, which has resulted in a rapidly diminishing concept of the public and the commons (Negri and Hardt 1999). The changing role of the democratic state that accompanied the economic crises of the 1970s and 1980s has been a major theme as the globalisation process has unfolded. This has been driven by the rise to hegemony of 'New Right' ideology, first in Great Britain and the United States in the late 1970s, then onto the other Anglo-American countries (Canada, Australia, New Zealand) in the 1980s, and subsequently further dispersed (although in considerably modified form) to many Western European nations along with Japan in the 1990s (see Mittelman 1996; Gray 1998). With the relative autonomy of core states (from capital) decreasing as capital mobility increased over this period, most Anglo-American states adopted programmes that supported regressive measures to lower wages and production costs and, even more fundamentally, middle- and working-class expectations regarding future living standards, income levels, state-funded retirement and the like (see Krugman 1990).

A typical policy mix in Anglo-American countries in the past few decades incorporated the internationalising of national economies through the lowering of barriers to foreign trade and investment; the deregulation and privatisation of most sectors which had formally been state-controlled or owned and a shift away from Keynesian macro-economic management to a focus on controlling inflation through monetary policy, leaving articulation of supply and demand to market forces. Concomitant changes to industrial relations systems marginalised unions and individuated employment contracts as welfare programmes contracted and the social wage was lowered. Taxation policy shifted towards lowering taxes on corporate profits, capital gains and high incomes. Increasing (regressive) taxes on property and consumption were accompanied by the raising of fees for basic services through the 'user pays' approach. In the aggregate, such

measures served to shift socio-economic patterns of income, wealth and life-chances from a diamond shape (with a bulge at the middle signifying a large middle class) to an hourglass shape (representing growing segments of haves and have-nots and a shrinking middle class) (Galbraith 1998). Kelsey's (1996) account of the 'New Zealand experiment' constitutes one of the most trenchant analyses of the totalistic implementation—and social effects—of such a programme.

Relatedly, the generation of goods and services has become significantly decoupled from employment. That is, the relative number of highly skilled, well-remunerated jobs generated in contemporary Anglo-American economies is far less than in the old Fordist manufacturing-based economy. This trend was recognised with respect to the manufacturing sector throughout the 1980s (see Harrison and Bluestone 1988). In recent years, it has become much more pronounced as the duality of service-sector employment has become more evident. Luttwak (1999) offers as an example of this trend the case of *Microsoft v. General Motors*, noting that the market value (and market power) of the former considerably exceeds the latter. Yet Microsoft has approximately 20,000 employees worldwide whereas GM still directly employs over 200,000 people. His basic point is that this single anecdote, if extended into a *system property*, creates a highly exclusionary and skewed economy with a huge potential for social fragmentation and even violent upheaval. Rifkin (1997) offers a similar treatment of these developments, referring dramatically to 'The end of work'. Yet, as Castells (1996) suggests, a more appropriate phrase would be 'The end of good work for the average worker'.

The social problematics of globalisation are not, of course, limited to Anglo-American economies. The sets of institutional rigidities in welfare states that Matten and Crane would have replaced by NCC display significant differences. The structural challenges faced by the welfare states of United States and Britain centre on poverty traps associated with low-skill wage levels; Scandinavian countries suffer from an under-supply of educated workers due to high income taxation levels; and the consensual corporatism of European continental countries suffers from inabilities of those countries to design lasting solutions to high unemployment (Esping-Andersen 1996). Even so, it can be concluded that, in all industrialised countries, satisfying, skilled and adequately remunerated employment is increasingly being replaced by some combination of unsatisfying, insecure and poorly paying employment, usually in the service sector, often performed by female and/or immigrant labour (Waring 1998).

A rather different set of issues concerns the role of the state in a globalising capitalism. States have obviously lost some of their powers of economic management to both supra- and sub-national bodies over the past couple of decades. Sassen (1998) notes that, within states, bureaucracies concerned with social equity have lost influence to those that are financially oriented and promote globalisation (with the support of powerful interests in the business sector). Yet states retain an essential monopoly over military force and the means of direct control over persons within their territories. Further, most (all?) advanced states have in the post-S11 period substantially increased the information they collect on individuals (stat[e]istics), expanded police powers and rescinded various civil liberties and protections afforded to citizens and employees. An argument can be made, then, that 'the state' is evolving in a post-democratic direction, or possibly devolving around an early-modern set of functions focusing on maintaining social order through force (and incorporating the ritual display of force) as described by Foucault (1977). Perhaps we are in the midst of a transformation in which the state is becoming the primary disciplinary mechanism for global capital, while its other (social equity) functions are either shifted to alternative institutions (such as the transnational corporation) or terminated altogether?

From the business firm to the transnational corporation

The transnational corporation (TNC) represents an extension or special case of the generic business firm. The generic business firm is a hierarchical social organisation, incorporating both cooperative and conflictual social relations, existing primarily to produce goods and services at a profit, those profits held as private property by the firm's owners (Coase 1988). The cooperative social aspect of the business firm emanates from the mutual interest of all primary stakeholders (i.e. owners, creditors, management, employees, the state) to ensure that the firm generates an adequate income stream so as to survive and continue to transfer resources (dividends, payments, wages, taxes) to these groups. The conflictual aspect arises from the different interests of the primary stakeholders over how the income stream is distributed among stakeholder groups.

The TNC differs from the generic business firm in one critical aspect. A TNC, which by definition operates in multiple host countries, has the opportunity to enhance its structural bargaining power versus workers and states, and thus reduce claims by these stakeholders on its income streams. Such privileged bargaining power is achieved most simply by placing multiple groups of workers located in different nations in competition with each other for the jobs that the TNC provides and, similarly, putting states in competition with each other for the jobs, capital, technology, tax revenues, etc. that are associated with TNC investment.

The end of the Cold War, the continuing progress of the NICs, and technological developments that enhance command-and-control capabilities have vastly expanded the population of potential sites for TNCs to locate particular value-chain activities. These firms are now able to pursue absolute advantage by articulating their specific resources and capabilities with country-specific locational factors. As a result, entry barriers to core segments of economically important industries have considerably increased in recent years, despite the rising prominence of the small business sector as a site of innovation and employment (see Harrison 1997). Contemporary mega-mergers occurring within (and at the intersection) of key industries further such concentration of ownership and control. These developments, while partly a reaction to other events as outlined above, have substantially changed bargaining positions (leverage) between TNCs and their major stakeholders (primarily states and workers) in favour of TNCs, as well as directly impacting industry structures, employment patterns and government policies (Jones 1999).

The TNC needs to be understood as an evolving institutional form within multiple and dynamic economic, political, technological and socio-cultural fields. The modal strategies and structures employed by TNCs have changed greatly over the past couple of decades (Bartlett and Ghoshal 2003). One particularly significant development has been the adoption of new sourcing arrangements involving the spatial reorganisation of TNC value chains from primarily national to regional or global configurations in line with changing corporate strategies (Dicken 2003). These arrangements are constituted by the national disintegration of a given value chain and the relocation of its nodal segments in multiple host countries. In the new production structure, intermediate products are transferred from one nodal point to another for further processing as they move along the value chain.

A related development of much significance has been the growing tendency for TNCs to replace hierarchically governed, vertically integrated production systems with network systems of interdependent, vertically linked suppliers and/or distributors coordinated by focal TNCs to produce goods or services in a manner that maximises flexibility and minimises risk for TNCs. The hierarchical network form of organisation allows TNCs to reduce their transaction costs and increase their flexibility by delegating non-essen-

tial activities to subcontractors which bear most of the risks associated with uncertain market conditions (Harrison 1997). These subcontractors are locked in TNC-centred commodity chains in which they have little power and in which the intermediate goods they produce have little trading value outside of the chain in which they are located. TNCs can then focus on high-value-added activities based on proprietary knowledge, technological intensity and scalar economies. TNCs are thus able to have their cake, and eat it, by enjoying the benefits of control without the liabilities of ownership due to their structural power over network affiliates. Globalisation is thought by Matten and Crane (2005) as providing the impetus for discussion on the social significance of capitalism. The question of whether the evolutionary path of many TNCs as outlined in this section is consistent with conventional notions of corporate citizenship (as criticised in Crane and Matten 2005) is contentious to say the least. These developments would seem to be consistent with the reiterated claims of Crane and Matten (2005) that an ever-expanding institutional vacuum exists in terms of the state's status as the guarantor of individual citizenship rights.

The transnational corporation and corporate social responsibility

According to Wood (1991):

[t]he basic idea of corporate social responsibility [CSR] is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.

For the purposes of this article, CSR will be defined in terms of organisational actions that promote: (1) a greater internalisation of negative externalities; and/or (2) a greater generation of positive externalities.

Normative arguments in support of social responsibility are based on ethical or instrumental rationales, while those against are based on institutional function or property rights perspectives. Ethical arguments are derived from religious principles, philosophical frameworks, or prevailing social norms. Basically, ethicists argue that firms (and the people in them) are compelled to behave in a socially responsible manner because it is the morally correct thing to do. Ethics-based advocates of social responsibility generally support such behaviour even in instances in which it involves an unproductive resource expenditure for the firm.

Instrumental arguments in favour of social responsibility are based on some kind of rational calculation that socially responsible behaviour will benefit the individual firm, at least over the long term (i.e. 'win-win' situations). By being socially responsible, firms can proactively anticipate and deter government regulations, exploit opportunities arising from increasing levels of cultural, environmental and sexual awareness and differentiate their products from their less socially responsible competitors.

Assuming (bounded) economic rationality, TNCs can be expected to undertake and sustain CSR activities and initiatives only under certain conditions (McWilliams and Siegal 2001). Following Jensen and Meckling (1976), if a firm's governance structure is functioning properly with respect to prioritising shareholder/owner interests (we are focusing here on companies in Anglo-American business systems), management should pursue only those CSR strategies/projects that are designed to enhance or protect the position of the firm across the multiple market and non-market environments it operates in. The strategic nature of decisions taken by the firm cannot be expected to differ with respect to CSR.

Note that there are several prerequisites to the effective deployment of any CSR strategy. Executive management must have an awareness of the content and potential instru-

mental value of CSR (which does not preclude CSR aligning with managers' personal values). In most circumstances, the net impact of a proposed CSR strategy will be evaluated. Most often, this is an exercise at estimation rather than an assessment based on the comparison of clear and transparent metrics (e.g. the expense of financial resources to build a park in return for intangible community goodwill). The firm must also have the resources and capabilities to fund and administer the CSR strategy.

Operating in accordance with instrumental principles would sanction 'genuine' CSR actions where targeted stakeholders received certain benefits (e.g. a new community centre), as well as ideological deployments of CSR (e.g. advertising restraints on cigarette packaging to pre-empt more draconian government regulation). It is also possible that a firm embarks on a CSR programme expecting some form of positive return, yet finds after some period that the anticipated returns do not materialise and the programme thus fails (in instrumental terms). By this time, however, certain stakeholders' expectations regarding the firm's commitment to the CSR programme may be such that the option of exiting may generate reputational damage, thus explaining why some CSR programmes become institutionalised despite the fact that they are 'losers'.

Firms may also be compelled to react to the first-mover CSR strategies of their competitors where they believe that failing to do so would do them damage. Thus, strong isomorphic effects can often be observed across an industry (or at least at the strategic group level) where a particular first-mover's CSR efforts gain wide positive publicity among key stakeholders (Bansal and Roth 2000). In these cases, even where the CSR strategy has not been proven a 'winner' (in terms of net payback), other firms will imitate it because they perceive the costs of not doing so are prohibitive. An industry can thus behaviourally migrate to the position where it takes on board certain responsibilities which, in economic terms, are not rational and constitute a collective reduction of shareholder value and transfer of wealth to non-vested stakeholders (Di Maggio and Powell 1983; Di Maggio 2002).³

We turn now to consider a widely noted empirical phenomenon: the practice of TNCs contracting parts of their businesses to low-labour-cost nation-states. The example serves to raise questions as to the 'real-world' relevance of the NCC concept. We suggest that, in many sets of circumstances surrounding our example, operationalisation of NCC would exacerbate the negative implications of globalisation.

The 'outsourcing' debate: application to new corporate citizenship

Outsourcing refers to the provision of corporate services to high-labour-cost nation-states by low-labour-cost nation-states. The contemporary debate on the outsourcing of information technology (IT) jobs from countries such as the United States and Australia to (most conspicuously) India provides a useful empirical referent for how the economic rationality of the TNC collides with the rationalities of other stakeholder groups such as workers and (on occasion) governments in their home countries. Such practices provide an effective illustration of what becomes of the viability of the NCC concept and, more generally, corporate social responsibility and stakeholder management in such circumstances.

In general, most forms of outsourcing draw on local providers or markets, essentially because outsourcing firms have strong local preferences in order to receive advantages relating to cost, enhanced communication and simplified logistics management. Under some circumstances, foreign providers may have such an advantage (usually based on

3 Isomorphism, institutional inertia and path dependency are contemporaneous features of many studies of political institutionalism and many studies of business ethics. A suggestion is that political institutionalism might also be a useful analytical framework in CSR research.

cost) that the outsourcing firm has little choice but to engage their services and cope with the opposition of local stakeholders (employees, customers). Other stakeholders such as employees and local government might also prefer the local option if this would mean that employment and economic activity might shift outside the boundaries of the outsourcing firm but still be captured at a local/regional level.

This would seem to be the case with the outsourcing of IT jobs to India and elsewhere in recent years. This is not exactly correct, however, for many North American firms are not reducing their level of vertical integration but rather relocating (or spatially restructuring) some of their value-chain activities from the USA to other countries that offer a combination of reliable supply, reasonable quality and substantial cost savings. As with outsourcing, spatial restructuring can be at a domestic level, as when a firm shifts activities and jobs say from Ohio to Alabama in pursuit of cheaper labour in non-union environments. The visibility and politicisation of spatial restructuring is heightened when it occurs internationally, especially when fuelled by globalisation. It is this spatial restructuring—not outsourcing—followed *en masse* in the IT industry in recent years, which is at the heart of the (so-called) outsourcing debate.

Massive spatial restructuring and the type of debate it generates is not new. In the United States (and other OECD economies) a very similar situation unfolded through the 1970s and 1980s in the manufacturing sector, where activities and employment shifted from the 'rust belt' states to the 'sun belt' states and then, in many cases, to overseas affiliates of US-based TNCs. The major differences between the two spatial restructuring waves were the types of jobs lost (manufacturing, blue-collar versus service-oriented, white-collar) and the political affinity of the majority of displaced employees (industrial Democrats versus post-industrial Republicans—who vote).⁴

Craig Barrett (CEO of Intel) recently stated with respect to the outsourcing debate (*USA Today*, 28 February 2004) that:

Life is tough. Life is not fair. You have to compete. It takes hard work to compete, so let's figure out how to compete.

Intel has about 40% of its employees outside the United States and has targeted China and India as key future markets and bases for its operations. It is estimated that Intel saves up to 70% on labour costs (cf. Silicon Valley) by shifting activities to locations such as Bangalore (*Electronic Engineering Times*, 5 July 2001). Intel can save even more in countries such as Bangladesh or Ghana, where IT workers are paid less than \$3/day (for data processing activities) (*Austin-American Statesman*, 21 October 2002).

The extent of the displacement of IT jobs in the USA is certainly alarming. The Gartner Group estimated that fully 10% of jobs created by US-based IT companies would have moved offshore by the end of 2004 (*Sacramento Bee*, 11 October 2003). The value of these offshore activities was expected to reach \$16 billion in 2004 and \$46 billion by 2007 (*US News and World Report*, 12 January 2004). This has put a downward pressure on wages in the IT sector in Silicon Valley, where 200,000 jobs have been lost and wages are down 24% from their highs in 2000 (*USA Today*, 3 February 2004). More extended projections suggest that by 2015, 3.3 million North American IT jobs will have moved offshore: 70% to India, 20% to the Philippines and 10% to China (*Best's Review*, 1 May 2003).

The level and rate of restructuring and job displacement should increase as isomorphic pressures impel more and more North American firms to spatially restructure their IT activities, aggregate industry experience in the restructuring process increases, and overseas locations gain in attractiveness by learning what factors entice IT-related FDI

⁴ It will be worth watching whether Republican administrations will be more sympathetic to the new generation of (largely Republican) displaced workers than were the Reagan–Bush administrations to the displaced manufacturing workers of the 1980s.

(foreign direct investment). The phenomenon is largely a case of individual firms having to 'keep up with the Joneses' and imitate the spatial restructuring strategies of their more proactive competitors in order to avoid operating at a major cost disadvantage. In short, for most firms, the offshoring of activities and employment is essentially a defensive manoeuvre.

According to James Breyer (*Business Week*, 17 May 2004), managing partner in venture capital firm Accel Partners in Silicon Valley:

If a company is not actively investing in China or India, they need to provide a very compelling case to board members as to why they are not.

In a very real sense, then, the decision to relocate activities and employment to India is in direct socially response to the firm's primary stakeholders (from the perspective of the decision-makers). The central task of a stakeholder management strategy in this context is to effectively communicate the advantages, the necessity, and the inevitability ('a natural effect of the global economic system') of spatial restructuring. Communications to external stakeholders use public media so as to co-opt or at least to nullify the former group's interest and ability to undermine the strategy.

The stakeholder dynamics associated with the spatial restructuring of North American IT activities and employment to India are relatively transparent. If implemented successfully, firms should become more competitive through substantial cost savings, or should at least maintain their relative level of competitiveness, either of which could be expected to enhance shareholder value. Some of these savings may be passed onto customers, while (somewhat ironically) a certain level of core activity and employment could actually be made more secure back in the USA as firms would be able to redirect some cost savings into research and development and other value-adding activities at home base. Indian workers, communities and governments would benefit from the incoming IT investment through job creation, technology transfer, tax revenues, linkage effects and the like.

The big losers of spatial restructuring are obviously those North American IT workers who lose their jobs and the much higher numbers who, while keeping their employment, do so under much less secure conditions and at considerably lower wages than enjoyed previously. Other negatively impacted stakeholders would include communities where job displacement is centred through a process of negative multiplier effects cascading through local service businesses, reduced local government revenues, increased crime and so forth.

The preceding review of stakeholder rationalities starkly illustrates the diverse interests at play in the outsourcing debate. Clearly, there are both winners and losers in this continuing process, with widely differing levels of power and voice. The TNC benefits by partially restructuring operations to a lower-cost environment. The relevant gamble for the TNC is ensuring that service delivery is continuous. Societal interests in non-Western countries performing services for the Western TNC are not the latter's direct concern. The situation structurally shifts when NCC (notionally) is brought into play. When the TNC delivers basic services, its subcontractors are the focus. One societal benefit is that disenfranchised groups in those countries were presumably larger before the opportunity of providing services to Western TNCs. The corollary is that remaining, still very large, groups of marginalised communities have, as a consequence of such private delivery of services, been denied the right to receive them. If promoting this type of situation, NCC compounds the negative implications of globalisation. One solution, we suggest, is that control of delivery of basic services is given to all possible recipients, the control of which has been seen as the traditional role of governments since its advocacy by John Stuart Mill.

Spatial restructuring and outsourcing serves to throw into question the continuing overall social utility of a corporate form unleashed by globalisation to operate in an

increasingly unrestricted manner. The contemporary corporation—manifested most fully in the institutional form of the TNC—is a superbly effective mechanism for creating wealth for its owners, their senior representatives in management, a relatively small group of core employees, and value for its primary customers. All other stakeholders outside of this tight orbit (including millions of to-be displaced IT workers in Silicon Valley and other high-tech corridors) will increasingly be excluded from accessing the wealth- and value-creating activities of TNCs (see Jones 2002).

These developments are clearly consistent with the insights offered by Lasch and Held as discussed earlier. For Lasch (1996), the massive and distributionally regressive corporate restructurings he observed during the 1980s—of which contemporary restructurings are the latest echo—epitomised the ‘revolt of the elites’. The fragmentation of society and appropriation of increasing proportions of wealth, income and political influence by those located in the upper regions of the socioeconomic hierarchy constituted betrayals of core democratic and progressive American values. Similarly for Held (1996), the asymmetrical impact of corporate restructurings on key stakeholders such as workers, owners, managers and communities entailed that those groups with the greatest economic ‘voice’ would capture the bulk of the benefits of globalisation and be able to steer the evolution of the citizenship discourse in their direction.

The distributional impacts associated with corporate outsourcing are clearly at odds with a conception of the corporation based on *voluntarily* taking on additional obligations irrespective of achievement of economic objectives. There are numerous other recent examples of corporations—especially TNCs—effecting similar or larger negative impacts on broad groups of stakeholders in order to benefit much narrower interests: several US airlines going into Chapter 11 with the explicit intent of abandoning their pension liabilities; General Motors threatening similar actions in attempting to wrench concessions from the UAW; Qantas shifting aircraft maintenance activities out of its Australian base despite record earnings; US and Argentine GM food producers forcing (through the WTO judicial process) unlabelled genetically modified foods on Western European consumers despite very clear evidence that such products are strongly opposed; international water supply companies announcing plans on exiting developing countries due to an inability to profit from privatised environments; and the actions of many transnational pharmaceutical firms with respect to methods of sponsoring research, product testing and marketing. Even such an anecdotal listing suggests that the voluntarism of the NCC concept does not stand up, either theoretically or empirically. Whatever need or demand there may be for TNCs to act in filling an institutional void with respect to the provision of individual citizenship goods, they may be expected to do so only under a particular and simple condition: that such behaviour is expected to generate or protect profitability.

The decision of a corporation to assume voluntarily the responsibility for administering services traditionally associated with elected governments will always depend on circumstances. The *Financial Times* has recently reported that some Western oil companies located in countries such as Sierra Leone and Nigeria have instituted basic schooling, health and water sanitation programmes in local communities surrounding plants. Expenditures associated with these programmes have not been publicly subsidised; indeed, protection of citizens’ rights in these circumstances would be beyond the abilities of the state. The observation provides some evidence for the descriptive validity of NCC. Such initiatives were borne not from philanthropy as much as historical experiences of the firms concerned with instances of political instability in those countries.

The alternate case, of course, is that states contractually delegate delivery of basic services to corporations. Although the complexities of such arrangements are beyond the modest scope of this article, we have alluded to the unsatisfactory outcomes of such programmes in the UK and other countries.

A new 'new corporate citizenship'?

Matten and Crane (2005) state they:

want to show that a more precise understanding of CC helps us to understand significant changes in the corporate role [...] to sharpen our conception of what CC is [...] to invigorate and inform a significant redirection in the development of theory about the social role of business.

Concept definition is never mere neutral description. An analysis of what is excluded from or unsaid in the definition is important to expose the preferences of authorship expected to bear on a target audience (Crotty 1998). Underlying Matten and Crane's avowedly descriptive intent is their tacit support for the emancipatory promises of neoliberalism, a refusal to countenance possibilities of non-benign motivations of corporate strategy and reification of the capitalist unit of organisation as the basic and pre-eminent point of analysis. Phrases such as 'corporate involvement in "citizenship" [is] a largely unavoidable occurrence' and 'Each of these [conceptual] contexts brings forth a range of mechanisms through which corporations *might* take over the administration of citizenship rights' (our emphasis) underline the advocacy of Matten and Crane towards corporatism and aversion toward social praxis. The claim is made that the presentation of NCC is a descriptive project, an identification of the capacities of corporate administration of citizenship, as if NCC has already occurred and only intellectual recognition of the fact is required. The claim that this analysis does not constitute advocacy is not tenable. Scoping out the descriptive feasibility of a concept is part of establishing its legitimacy. The project admits it seeks to establish a newly-arrived-at 'precise understanding' or 'significant redirection', which is our point: that NCC amounts to little more than neoliberal propaganda.

The presentation of NCC is menacing not for its dubious relevance to business practices nor its incomplete discussion of the intersection of state and private sector, although we have sought to emphasise these in the preceding discussion. At issue is the implications for public policy posed by the concept itself. NCC has been posited as pragmatic acceptance of the supposedly irreversible decline of welfare states:

[W]e might hypothesise that the shifts in the citizenship arena are largely an unintended and unanticipated consequence of the multiple events occurring in the global political economy (Crane and Matten 2005).

Its basic objective is to justify an extension of stakeholder management into remaining vestiges of public welfare systems, sending the commons into the private-interest domain. Conceptually, at least, NCC compounds the problem it purportedly seeks to address. The administration of citizenship rights may or may not become more efficient if transplanted to the private sector. Whichever the policy outcomes, it is sure that handing delivery of basic services to private interests would engender selectivity, services being granted to the highest bidder and according to a user-pays principle. The theory of the game shows that self-interested action, when giving rise to a prisoner's dilemma, can frustrate public policy. A rational corporation that has been given explicit responsibility for the operations of democracy highlights the problem.

Within this contradiction lies the purpose of the concept, which we contend is ideologically driven. NCC gives us an example of Chicago school economism extended to an illogical end. Friedman believes that 'competitive capitalism [...] promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other' (Friedman 1962: 9). Despite the empirical weaknesses of Friedman's thinking, NCC precludes even conceptualising such an offset. NCC would fuse economic and political power in all dimensions of public and private life. Private

interests given the responsibility for administering individuals' rights of political access is not far removed from private interests given direct political access. The intervening responsibility might even be seen as the mechanism ('channelling role') allowing such right of access. All social arrangements would be made endogenous to the firm, valorised in terms of abilities to contribute to private interests and therefore made manageable. This logic returns us to the policy implications of expanding corporate responsibilities as warned by Levitt (1958). Presumably, Chicago school economists would be wary of a proposal to yoke free markets with the responsibilities of public policy.

The NCC concept furthers the institutional trend driving the exclusivist reconfiguration of the discourses of democracy and citizenship as theorised by Held and Lasch and discussed earlier in this article. NCC completes the historical journey which commenced with the intense, late-19th-century debates in American society between industrial and agrarian interests over the legitimacy of the corporation, as chronicled by Lustig (1982). That battle was decisively won by corporate interests in the early 20th century. Corporate hegemony seems now so complete that the NCC authors present (without irony) the corporation as occupying *the* central institutional role in providing basic citizenship rights to individuals in the 21st century! A continuing critique of the corporate form itself seems literally inconceivable from within the NCC framework; the debate has instead been shifted to the normative and distributive implications of NCC-based behaviours. From the perspective of NCC theory, the corporate form is here to stay.

At issue with the validity of the NCC concept is not the rights of corporations *per se* to act in their own financial interest as they define that to be. The conceptual validity is challenged by questions on the legitimacy of authority and the fairness of distribution. We presume that the supposed winners of NCC (corporations entrusted with service delivery and selected citizen groups) displace other groups, *viz.*, corporations not contracted to the state and non-selected citizen groups. Zero-sum games played out in the provision of scarce resources can either be rejected, can cause dissent or can be accepted. If they are accepted, the arbiter is ongoing dialogue with the state, which precludes a general replacement of state functions. Matten and Crane ignore reciprocal relationships between private-interest groups and the state.

Possibilities that expanded roles of private-interest groups might preserve or strengthen functional roles of the state, which are not considered by Matten and Crane, suggest themselves as avenues for future research. The guaranteeing of citizenship rights is, of course, a laudable objective and in keeping with democratic ideals. Voluntary and contractual reciprocities between state and private interests are necessary, however, if the latter are to be considered an appropriate vehicle for such responsibility. Sociological aspects of industrial relations are noted as strong influences on labour markets and the productive apparatus (Hausman and McPherson 1993). Trust influences policy outcomes as much as economic outcomes. If NCC is to be made acceptable on grounds of equitable policy outcomes, a requirement arises that responsibility for policy formulation, delivery and outcomes is shared. Sharing responsibility requires that disparate groups coalesce in some form.

The question goes to the form of cooperation. Game-theoretic strategies of 'tit-for-tat', where both parties cooperate on the first move, then do whatever one's opponent did on the previous move, have been shown to provide for optimal collective outcomes against a wide range of alternatives (Axelrod 1984). Putnam (1993: 172-74) refers to constellations of policy actors as 'networks of civic engagement'. Advantages of reciprocal networks, Putnam claims, are to increase the costs of defection, establish norms of conduct that would comply with terms of such open-ended contracts and, in providing 'learning forums', minimise economic and policy risks for the parties. It is unclear how societal support for private provision of public policies might manifest in the absence

of the state, although such as the Social Economic Council of the Netherlands, which is based on a system of sector-based regulatory organisations, might provide useful indicators. A well-functioning system of corporate citizenship might require, if paradoxical, a strong state to design and administer necessary sanctions. The logic of institutional integration in policy formulation and its delivery may hinge on network arrangements for which few empirical precedents are available. For those who aim to make scholarly contributions towards proposals to expand the reach of corporate citizenship, our review suggests that societal support and institutional integration are promising avenues of investigation.

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